

Message Text

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ACTION EA-13

INFO OCT-01 SS-14 ISO-00 EB-03 L-02 PM-03 NSC-10 NSCE-00

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FM AMEMBASSY MANILA

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C O N F I D E N T I A L MANILA 12753

LIMDIS

E.O. 11652: GDS

TAGS: ENRG, RP

SUBJECT: ESSO NEGOTIATIONS WITH GOP ON OIL PRICE AND EQUITY
ACQUISITION

REF: A. MANILA 12700

B. MANILA 11545

1. ESSO EASTERN PRESIDENT CLEVELAND AND LOCAL
MANAGER WALLACE BRIEFED AMBASSADOR NOV 13 ON DISCUSSION
THAT DAY WITH PRESIDENT MARCOS. CLEVELAND GAVE MARCOS
VIRTUAL ULTIMATUM THAT UNLESS AN IMMEDIATE 6.3
CENTAVOS PER LITER PRICE INCREASE WERE AUTHORIZED AND
PRINCIPLE OF AUTOMATIC ESCALATION WERE ESTABLISHED TO
COVER FUTURE COST INCREASES, ESSO WOULD CANCEL NEXT
TANKER LOADING FOR PHILIPPINES SCHEDULED NOV 23.
MARCOS, WHO HAD MELCHOR AND FINANCE SECRETARY VIRATA
WITH HIM, APPEARED READY TO AGREE BUT ADVISERS SAID DAY
OR SO NEEDED IN ORDER TAKE SUCH ACTION.

2. CLEVELAND ALSO BROUGHT UP PROPOSED ESSO SALE OF
EQUITY TO PHILIPPINE GOVERNMENT OR PRIVATE ENTITY,
ASSERTING THAT ESSO WOULD HAVE THE VPSTRUCTURE EQUITY BY
END OF YEAR IN ORDER ASSURE LONG-TERM VIABILITY OF COMPANY
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OR IT WOULD BEGIN TAKE STEPS TO DIVEST AND TERMINATE

OPERATIONS. HE REFERRED TO RECENT ESTABLISHMENT OF PHIL NATIONAL OIL CO. (REF A) AND TO EXTENDED NEGOTIATIONS BETWEEN ESSO AND HANS MENZI (REF B) AND ALSO WITH GOVERNOR "KOKOY" ROMUALDEZ. HE SAID ESSO NEEDED TO KNOW WHOM IT SHOULD DEAL WITH CONCERNING EQUITY SALE.

3. ACCORDING TO CLEVELAND, MARCOS VISIBLY WINCED AT MENTION BEFORE MELCHOR AND VIRATA OF THE MENZI/ROMUALDEZ DISCUSSIONS, AND PRESIDENT APPEARED TO MAKE DECISION ON THE SPOT TO UTILIZE PNOC AS INSTRUMENT FOR ACQUISITION OF ESSO EQUITY. HOWEVER HE ASKED FOR TIME TO STUDY ISSUE WITH TECHNOCRATS SICAT AND PATERNO AS WELL AS MELCHOR AND VIRATA. CLEVELAND TO RETURN AFTERNOON NOV 16 TO CONTINUE NEGOTIATIONS AND INDICATED WILLINGNESS TO STAY ON TO CONCLUDE DEAL.

4. ACCORDING TO WALLACE, ESSO (AND HE BELIEVES ALL OTHER OIL COMPANIES) WERE APPROACHED BY GOP EMISSARY LAST WEEK CONCERNING POSSIBLE ACQUISITION OF ENTIRE INDUSTRY BY GOP. DURING NOV 13 MEETING AT MALACANANG, MARCOS INDICATED CLEAR DESIRE TO HAVE PNOC ACQUIRE CONTROLLING INTEREST IN BATAAN REFINERY CORPORATION (BRC) THROUGH ACQUISITION OF ESSO'S 57 PERCENT MAJORITY OWNERSHIP. NO MENTION MADE THROUGHOUT MEETING OF EARLIER DISCUSSIONS WITH MOVIL (REF B) OR TO POSSIBILITY OF ACQUIRING MOVIL'S 43 PERCENT OWNERSHIP OF BRC. ESSO OFFICIALS POINT OUT THAT APPROACH TAKEN AT NOV 13 MEETING WOULD IMPLY 100 PERCENT ACQUISITION OF ESSO.

5. OTHER SPECIFIC POINTS RAISED BY MARCOS WERE: A) WHETHER ESSO WILLING TO ENTER INTO MANAGEMENT CONTRACT WITH PNOC FOR REFINERY AND OTHER OPERATIONS; AND B) WHETHER ESSO WOULD MAKE COMMITMENT TO CONTINUE CRUDE SUPPLY. ESSO OFFICIALS RESPONDED AFFIRMATIVELY ON FIRST POINT BUT SAID THERE WOULD DEFINITELY BE NO CRUDE COMMITMENT, POINTING OUT THAT IN PRESENT CIRCUMSTANCES GOP OR PNOC WOULD BE IN BETTER POSITION TO ACQUIRE CRUDE DIRECTLY FROM ARAB COUNTRIES THAN TO

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GET SUPPLY THROUGH US COMPANY.

6. IN REPORTING FOREGOING TO AMBASSADOR, ESSO OFFICIALS COMMENTED THAT PRESIDENT MARCOS APPEARED READY TO TAKE DECISIVE ACTION ON BOTH PRICE AND EQUITY QUESTIONS IN CURRENT SUPPLY CRISIS. PRESIDENT DID NOT SEEM TO TAKE OFFENSE AT BLUNT APPROACH AND IN FACT MAY HAVE WELCOMED IT AS BASIS FOR QUICK ACTION IN FAVOR OF ESSO PROPOSAL.

WALLACE POINTED OUT THAT ABSENCE OF FIRST LADY (AND KOKOY) WAS PLUS FACTOR LIKELY TO FACILITATE EARLY AND MORE RTIONAL DECISION BY MALACANANG AND TECHNOCRATS.

7. ESSO OFFICIALS ARE CONVINCED MARCOS BELIEVES GOP ACQUISITION OF FILOIL WAS A MISTAKE AND THAT HE NOW WISHES TO CONCENTRATE ON FULL UTILIZATION OF BRC (WHICH CURRENTLY HAS EXCESS CAPACITY) RATHER THAN UNDERTAKE EXPENSE OF FILOIL EXPANSION. THEY NOTED THAT UNDER ESSO MANAGEMENT CONTRACT, PNOC COULD BECOME OPERATIONAL ALMOST IMMEDIATELY RATHER THAN ENCOUNTER EXTENDED DELAY ENVISIONED REF A.
SULLIVAN

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